

Message Text

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ACTION AF-10

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R 081344Z MAY 78
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TO SECSTATE WASHDC 9584
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMCONSUL BUKAVU POUCH
AMEMBASSY JIDDA
AMEMBASSY LONDON
AMCONSUL LUBUMBASHI
AMEMBASSY LUSAKA
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TEHRAN
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
US MISSION USUN NEW YORK 1513

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 4549

BRUSSELS ALSO FOR USEEC

E.O. 11652: GDS
TAGS: EFIN, EAID, CG
SUBJECT: MOBUTU PLAN: BACKGROUND

REF: BRUSSELS 07720

1. IN VIEW OF THE BELGIAN INVITATION TO A PROSPECTIVE
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DONORS' CONFERENCE (REFTEL, THE EMBASSY BELIEVES
ADDRESSEES MIGHT FIND USEFUL SOMEBACKGROUND TO ZAIRE'S
ECONOMIC PROBLEMS, SOME DEFINITIONS OF TERMINOLOGY, AND
A REPORT OF THE STATUS OF IMPLEMENTATION OF ECONOMIC
REFORMS.

2. CAUSES FOR THE CURRENT ECONOMIC PROBLEMS: TAKING

ADVANTAGE OF HIGH COMMODITY PRICES OF THE EARLY 1970'S, ZAIRE EMBARKED ON AN OVERLY AMBITIOUS DEVELOPMENT PROGRAM, ACCOMPANIED BY NUMEROUS PRESTIGE PROJECTS AND WITH LITTLE MANAGEMENT CONTROL. DURING THE SAME PERIOD IT ALSO UNDERTOOK AN EXTENSIVE NATIONALIZATION PROGRAM WHICH RESULTED IN A DRASTIC DECLINE IN INDUSTRIAL AND AGRICULTURAL PRODUCTION AS WELL AS DISRUPTION OF NORMAL COMMERCIAL SUPPLY CHANNELS. AS LONG AS COMMODITY PRICES REMAINED HIGH, ZAIRE HAD NO PROBLEM BORROWING TO MEET ITS FOREIGN EXCHANGE DEFICIT. HOWEVER, IN LATE 1974 THERE WAS A GENERAL DECLINE IN COMMODITY PRICES AND A PARTICULARLY STEEP FALL IN THE PRICE OF COPPER, ZAIRE'S PRIMARY EXPORT. AT THE SAME TIME, PRICES FOR IMPORTED PETROLEUM PRODUCTS MORE THAN TRIPLED. IN 1975, THE BENGUELA RAILROAD, THE PRINCIPAL SUPPLY AND EVACUATION ROUTE THROUGH ANGOLA FOR ZAIRE'S MINERALS, WAS CLOSED, ADVERSELY AFFECTING PRODUCTION LEVELS AND INCREASING COSTS. PROSPECTS FOR THE RAILROAD'S REOPENING ARE STILL POOR. AS A RESULT OF ALL THESE FACTORS, ZAIRE'S FOREIGN EXCHANGE RESERVES WERE EFFECTIVELY EXHAUSTED IN 1975.

3. STABILIZATION PROGRAM: THE USG AND OTHER TRADITIONAL DONOR COUNTRIES INFORMED ZAIRE THAT ANY ADDITIONAL ECONOMIC ASSISTANCE WOULD BE DEPENDENT UPON ZAIRE'S UNDERTAKING SELF-HELP MEASURES. IN AUGUST 1975 ZAIRE REQUESTED THE

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ASSISTANCE OF THE IMF IN PREPARING A STABILIZATION PROGRAM AND BEGAN TO IMPLEMENT A NUMBER OF MEASURES DESIGNED TO BRING ABOUT ECONOMIC RECOVERY. THESE MEASURES, TOGETHER WITH AN IMF STANDBY SIGNED IN MARCH 1976 AND ANOTHER IMF STANDBY SIGNED IN MARCH 1977, HAVE BEEN THE ESSENCE OF THE STABILIZATION PROGRAM.

4. SELF-HELP MEASURES: THE MOST IMPORTANT OF THE SELF-HELP MEASURES WHICH ZAIRE HAS UNDERTAKEN ARE THE FOLLOWING:

- A. DEVALUATION: IN FEBRUARY 1976 ZAIRE DEVALUED ITS CURRENCY BY APPROXIMATELY 42 PER CENT. HOWEVER, CONTINUING INFLATION COUPLED WITH IMPORT SHORTAGES AND ECONOMIC STAGNATION HAVE BROUGHT ABOUT A SITUATION WHERE THE ZAIRE IS ONCE AGAIN SERIOUSLY OVER-VALUED ON THE OFFICIAL MARKET.
- B. RETROCESSION: IN LATE 1976 ZAIRE BEGAN A PROCESS, NOW VIRTUALLY COMPLETED, WHEREBY UP TO 60 PER CENT OF THE EQUITY OWNERSHIP IN MAJOR NATIONALIZED INDUSTRIAL, AGRICULTURAL AND COMMERCIAL ENTERPRISES WOULD BE RETURNED TO THE ORIGINAL OWNERS.
- C. OGEDEP: IN 1976 ZAIRE CREATED AN OFFICE OF DEBT MANAGEMENT (OGEDEP), WHICH INVENTORIES AND MONITORS ALL GOZ DEBT. THIS OFFICE HAS ONLY RECENTLY BEGUN TO FUNCTION FULLY.

5. IMF AGREEMENTS: ZAIRE DID NOT COMPLY WITH THE PROVISIONS OF THE 1976 STANDBY, IN THAT THE BUDGETARY DEFICIT CONSIDERABLY EXCEEDED THE AGREED-UPON TARGET--PRIMARILY BECAUSE OF GREATER THAN-ANTICIPATED GOZ EXPENDITURES. PARTLY AS A RESULT, INFLATION IN 1976 WAS APPROXIMATELY 80 PERCENT. FOLLOWING A REVIEW IN OCTOBER 1977, THE IMF AGAIN FOUND ZAIRE NOT TO BE IN COMPLIANCE WITH THE PROVISIONS OF THE STANDBY SIGNED IN MARCH 1977. ALTHOUGH THE IMF FOUND EXTENUATING CIRCUMSTANCES IN THAT THE PRICE OF COPPER WAS LESS THAN HAD BEEN ASSUMED AND NO PROCEEDS HAD BEEN RECEIVED FROM THE ANTICIPATED PRIVATE BANK LOAN, THE BUDGET DEFICIT WAS AGAIN CONSIDERABLY BEYOND THE AGREED-UPON TARGET, AGAIN BECAUSE OF GREATER-THAN-ANTICIPATED GOZ EXPENDITURES. THE GOZ AND THE IMF HAVE HAD SEVERAL CONSULTATIONS AND CONFIDENTIAL

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ARE EXPECTED TO NEGOTIATE THE TERMS OF A NEW STANDBY AGREEMENT IN MAY.

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6. OFFICIAL DEBT RESCHEDULING: IN 1976 THE USG AND ZAIRE'S OTHER MAJOR WESTERN CREDITORS, UNDER THE AUSPICES OF THE PARIS CLUB, AGREED TO RESCHEDULE A SUBSTANTIAL PORTION OF 1975 OFFICIAL ARREARAGES AND A MAJOR PORTION OF INTEREST AND PRINCIPAL PAYMENTS COMING DUE IN 1976. IN 1977 THE USG AND OTHER MAJOR WESTERN CREDITORS AGREED TO ANOTHER GENEROUS RESCHEDULING CONCERNING MOST OFFICIAL PAYMENTS COMING DUE THAT YEAR. THEY ALSO AGREED THAT
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THEY WOULD CONSIDER THE SAME GENEROUS TERMS FOR 1978, PROVIDED THAT ZAIRE CONCLUDED A COMPARABLE AGREEMENT WITH ITS PRIVATE CREDITORS, CONCLUDED A NEW IMF STANDBY, AND MADE ITS BEST EFFORTS TO ABIDE BY THE TERMS OF THE PREVIOUS RESCHEDULING AGREEMENTS. ALTHOUGH ZAIRE HAS MADE AN EFFORT TO COMPLY WITH THE TERMS OF THE TWO PREVIOUS RESCHEDULING AGREEMENTS, IT HAS NOT YET REACHED AN AGREEMENT WITH ITS PRIVATE CREDITORS, NOR HAS IT SIGNED A NEW STANDBY. HOWEVER, IT IS EXPECTED THAT THESE TWO CONDITIONS WILL BE SATISFIED IN THE NEAR FUTURE AND A PARIS CLUB MEETING TO CONSIDER 1978 OBLIGATIONS IS EXPECTED TO FOLLOW SOON THEREAFTER.

7. LONDON BANK AGREEMENT: IN NOVEMBER 1976 ZAIRE REACHED AN AGREEMENT IN PRINCIPLE WITH THE PRIVATE BANKS WHICH WERE THE MANAGERS OF ITS SYNDICATED LOANS. UNDER THE TERMS OF THE AGREEMENT, IF ZAIRE BECAME CURRENT IN INTEREST AND PRINCIPAL PAYMENTS DUE THESE BANKS UNDER THE SYNDICATED LOANS, THEN THE BANKS WOULD MAKE THEIR BEST EFFORTS TO RAISE UP TO \$250 MILLION IN MEDIUM-TERM CREDITS. IN JULY 1977, ZAIRE ESSENTIALLY COMPLIED WITH ITS OBLIGATIONS UNDER THE LONDON AGREEMENT. BUT, BECAUSE OF THE SHABA INVASION AND OTHER FACTORS, INCLUDING A CHANGE IN THE GOVERNOR OF THE CENTRAL BANK, THE PRIVATE BANKS BY THAT TIME HAD NOT BEEN ABLE TO RAISE A SIGNIFICANT NEW LOAN FOR ZAIRE. HOWEVER, IT IS EXPECTED THAT IN THE NEAR FUTURE THESE PRIVATE BANKS AND THE GOZ WILL CONCLUDE A FIVE-YEAR CREDIT FOR APPROXIMATELY \$220 MILLION. DISBURSEMENT WILL BE CONTINGENT UPON THE GOZ BEING CURRENT IN ALL PAYMENTS DUE TO BANKS UNDER SYNDICATED LOANS AND ON THE CONCLUSION OF AN IMF STANDBY.

8. MOBUTU PLAN: FOLLOWING THE 1977 SHABA WAR PRESIDENT MOBUTU SPOKE OF A "MARSHALL PLAN" TO ASSIST IN THE ECONOMIC RECOVERY OF ZAIRE. FOLLOWING DISCUSSIONS WITH A NUMBER OF EUROPEAN GOVERN-

MENTS, PARTICULARLY WITH THE BELGIANS, PRESIDENT MOBUTU
ANNOUNCED THE MOBUTU PLAN, DESIGNED TO RESTORE THE ECONOMY
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THROUGH A COMBINATION OF SELF-HELP MEASURES AND FOREIGN ASSIST-
ANCE. HE ASKED THE BELGIANS TO HELP IN THE PREPARATION OF THE
PLAN AND TO SERVE AS COORDINATORS IN SOLICITING ASSISTANCE FROM
OTHER DONORS. FUNDS FROM FOREIGN DONORS ARE TO BE CHanneLED AND
COORDINATED THROUGH THE IBRD. ALTHOUGH NOT YET COMPLETED, THE
PLAN IS ESSENTIALLY A THREE-YEAR PROGRAM DESIGNED TO ENSURE
BETTER FISCAL AND MONETARY MANAGEMENT AND DEVELOPMENT OF PRIORITY
PROJECTS IN KEY SECTORS OF THE ECONOMY SUCH AS AGRICULTURE,
TRANSPORTATION, MINING AND ENERGY. THE MAIN ASPECT OF THE
MOBUTU PLAN YET TO BE COMPLETED IS THE FINANCIAL SECTION WHICH
WILL REFLECT KEY ELEMENTS OF THE CONTEMPLATED IMF STANDBY. THE

MAJOR SELF-HELP MEASURES CONTEMPLATED BY ZAIRE WILL BE BETTER
FISCAL AND MONETARY CONTROL. IN THIS CONNECTION, THE GOZ HAS
REQUESTED THE IMF TO PROVIDE EXPERTS FOR THE CENTRAL BANK, AND
THE GOZ AND IMF REPORTEDLY HAVE AGREED UPON THE POWERS OF A TEAM
AT THE CENTRAL BANK WHICH WILL ESSENTIALLY CONTROL FOREIGN EX-
CHANGE ALLOCATION. LIKEWISE, IT IS CONTEMPLATED THAT FOREIGN
EXPERTS WILL BE PLACED IN THE MINISTRY OF FINANCE, PARTICULARLY
IN THE CUSTOMS DIVISION WHERE FISCAL IRREGULARITIES ARE
NOTORIOUS. THE GOZ ALREADY HAS PUT FOREIGN EXPERTS IN CONTROL OF
ITS ESSENTIAL RAIL AND RIVER TRANSPORTATION SYSTEMS AND, AS A
RESULT, PRODUCTIVITY OF THE TRANSPORTATION SECTOR HAS INCREASED
SIGNIFICANTLY. IT IS HOPED THAT SIMILAR EFFECTIVENESS WILL
RESULT FROM PLACING EXPATRIATES IN THE CENTRAL BANK AND THE
MINISTRY OF FINANCE.
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